

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name ST. LOUIS HOUSING COMMISSION	County GRATIOT
Audit Date June 30, 2004	Opinion Date August 19, 2004	Date Accountant Report Submitted to State: January 31, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

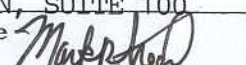

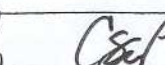
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).	X		

Certified Public Accountant (Firm Name) BURNSIDE & LANG, P.C.			
Street Address 5915 EASTMAN, SUITE 100	City MIDLAND	State MI	ZIP 48640
Accountant Signature    1/31/05			

ST. LOUIS HOUSING COMMISSION

**ANNUAL FINANCIAL STATEMENTS
AUDITORS' REPORT
and
SINGLE AUDIT REPORT**

June 30, 2004 and 2003

**BURNSIDE & LANG, P.C.
CERTIFIED PUBLIC ACCOUNTANTS**

**ST. LOUIS HOUSING COMMISSION
GRATIOT COUNTY, MICHIGAN**

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Independent Auditors' Report

Members of the Board of Commissioners
St. Louis Housing Commission
Gratiot County, Michigan

We have audited the accompanying financial statements of the St. Louis Housing Commission as of and for the years ended June 30, 2004 and 2003, as listed in the table of contents. These financial statements are the responsibility of the management of the Housing Commission. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the St. Louis Housing Commission as of June 30, 2004 and 2003, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 8, the St. Louis Housing Commission implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis*—for State and Local Governments, as of June 30, 2004.

The management's discussion and analysis on pages 2 through 8 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 19, 2004 on our consideration of St. Louis Housing Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The combining financial statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the St. Louis Housing Commission. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

A handwritten signature in cursive script, appearing to read "Burnside & Lang, P.C.", written in dark ink.

Burnside & Lang, P.C.

August 19, 2004

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion And Analysis (MD&A)

The St. Louis Housing Commission's management discussion and analysis of the SLHC financial statements including a narrative overview and discussion of the financial activities of the SLHC for years and periods ending June 30, 2003 vs. June 30, 2004.

The MD&A is specifically designed to: 1.) assist the reader in focusing on significant financial issues; 2.) provide a broad scope overview of the SLHAs financial activities; 3.) identify and explain changes in the SLHC's financial position from 2003 to 2004; and 4.) highlight any individual funding source issues or concerns.

Since the MD&A is designed to present basic financial in a narrative, executive summary format, the reader is encouraged to consider the information presented here in conjunction with the SLHA's audited financial statements.

Questions concerning any of the information provided in this report or request for additional information should be addressed to Ms. Kerry Marsh, Executive Director, St. Louis Housing Commission, P.O. Box 117, St. Louis, MI 48880

This MD&A is intended to serve as an introduction to the Housing Commission's basic financial statements. The Housing Commission is a special-purpose government engaged in business-type activities. Accordingly, only fund financial statements are presented as the basic financial statements, comprised of two components: (a) fund financial statements and (b) a series of notes to the financial statements. These provide information about the activities of the Housing Commission as a whole and present a longer-term view of the Housing Commission's finances. This report also contains other supplemental information in addition to the basic financial statements themselves demonstrating how projects funded by HUD have been completed.

Reporting On The Housing Commission As A Whole

One of the most important questions asked about the Commission's finances are, "Is the Housing Commission as a whole better off, or worse off, as a result of the achievements of fiscal year 2004. The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets report information about the Housing Commission as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Financial Highlights

- SLHC's assets exceed its liability by \$1,878,499
- Capital Assets grew by \$114,222 without the implication of accumulated depreciation
- Agency revenues increased by \$6,088 excluding Capital Funds dollars
- SLHC utilized no capital fund expenditure because of the delayed release of FY 2004 grant
- The collective effect on operating expense of 2003 vs. 2004 was only a 3.6% increase
- Total revenues decreased by \$66,747 primarily because of the lack of any capital fund activity

Fund Financial Statements

All of the funds of the Housing Commission are reported as proprietary funds. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Housing Commission, like other enterprises operated by state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The Housing Commission's financial statements report its net assets and changes in them. One can think of the Housing Commission's net assets - the difference between assets and liabilities - as one way to measure the Commission's financial health, or financial position. Over time, increases and decreases in the Authority's net assets are one indicator of whether its financial health is improving or deteriorating. One will need to consider other non-financial factors, however, such as the changes in the Commission's occupancy levels or its legal obligations to HUD, to assess the overall health of the Housing Commission.

Annual Report Using This

The Housing Commission's annual report consists of financial statements that show combined information about the Housing Commission's most significant funds, the Low Rent Housing Program, Section 8 Housing Choice Voucher Program and Public Housing Capital Fund Program.

The Housing Commission auditors provided assurance in their independent auditors' report, located immediately preceding the MD&A, that the basic financial statements are fairly stated. The auditors provide varying degrees of assurance regarding the other information included in this report. A user of this report should read the independent auditors' report carefully to determine the level of assurance provided for each of the other parts of this report.

Reporting The Housing Commission's Most Significant Funds

The Housing Commission's financial statements provide detailed information about the most significant funds. Some funds are required to be established by the Department of Housing and Urban Development (HUD). However, the Housing Commission establishes other funds to help it control and manage money for particular purposes, or to show that it is meeting legal responsibilities for using grants and other money.

The Housing Commission's enterprise funds use the following accounting approach for Proprietary funds. All of the Housing Commission's services are reported in enterprise funds. The focus of proprietary funds is on income measurement, which, together with the maintenance of net assets, is an important financial indicator. The statements evaluated include:

- Statement of net Assets – reports the Commission's current financial resources (short term spendable resources) with capital assets and long-term debt obligations.
- Statement of Revenues, Expenses, and Changes in Fund Net Assets reports the Commission's operating and non-operating revenues, by major source along with operating and non-operating expenses.
- Statement of Capital Assets – reports the Commission's activities to improve and/or expand its assets and reflects current renovation efforts and accumulated depreciation.

The following analysis of the entity wide financial statement is provided to assist the reader of our financial statements.

The SLHC maintains its books and records utilizing the accrual basis of accounting. Accrual accounting recognizes revenues and expenses when earned regardless of when cash is received or paid.

The following is a description of the programs and services that the authority provides for the residents of the St. Louis Housing Commission:

Low Income Public Housing

The SLHC owns approximately 79 units in two developments in the City of St. Louis. The 79 units owned by the Commission consist of family units. The Commission is responsible for the management, maintenance and utilities for all units and sites. On an annual basis, the Commission submits a request for funding known as the Calculation of Operating Fund Subsidy. The basic concept of the Calculation of Operating Subsidy is that the Commission has an allowable Operating Expense Level, Allowable utilities Expenses Level and Audit Costs that becomes the Commissions Total Allowable Expenses. HUD will fund the difference between the Total Allowable Expenses and the amount of rents that the Authority can charge their tenants based upon HUD eligibility calculation. The funds are utilized to provide safe, affordable, clean housing to the residents of the City of St. Louis, Michigan.

Section 8 Housing Choice Voucher Program

This grant program provides Housing Assistance Payments to Landlords who participate in the program. Qualifying tenants to the program have their income analyzed utilizing HUD's guidelines and their rent are assessed accordingly. The balance between the differences of the allowable rent amount set by HUD and the tenant's contribution is equal to the Housing Assistance Payment.

Capital Fund Program

This grant program is awarded by HUD on an annual basis. The purposes of this grant is to maintain the physical improvements of the Commission's sites and the administrative management to ensure those improvements are completed in the most effective and efficient manner. The Commission requisitions funds from HUD as the Commission expends funds.

Commission-Wide Condensed Financial Statements

Statement of Net Assets

Current & Other Assets	2004	2003	Change
Cash	\$ 454,754	\$ 451,144	\$ 3,610
Other current assets	84,059	37,476	46,583
Capital Assets (net)	1,470,174	1,631,534	(161,360)
Total Assets	2,008,987	2,120,154	(111,167)
Liabilities			
Accounts Payable	13,004	17,160	(4,156)
Current liabilities	117,484	72,668	44,816
Total Liabilities	130,488	89,828	40,660
Net Assets			
Net Investment in Capital Assets	1,470,174	1,631,534	(161,360)
Unrestricted	408,325	398,792	9,533
Total Net Assets	\$1,878,499	\$ 2,030,326	\$(151,827)

Major Factors affecting the statement of Net Assets

Total Assets for FYE 2004 are \$2,008,987 and at FYE 2003 the amount was \$2,120,154. This represents a decrease of \$111,167 for which the major reason was the addition to accumulated depreciation from \$2,640,790 in 2003 to \$2,815,692 for 2004.

Total liabilities increased by \$40,660 with the major impact due to interprogram payables, which grew by \$39,798.

Net Assets declined by \$151,827 from 2003 to 2004 with the reason being accumulated depreciation. The positive note from the decline was the increase of unrestricted net assets by \$9,533, which is primarily retained earnings.

Statement of Agency Wide Revenues, Expenses, and Net Assets

Statement of Revenues

Source	2004	2003	Change
Public housing rental	\$ 147,251	\$ 154,334	\$ (7,083)
HUD operating subsidy	712,874	697,777	15,097
HUD Capital Fund	27,845	100,680	(72,835)
Other Income	4,874	6,800	(1,926)
Total Revenues	\$ 892,844	\$ 959,591	\$(66,747)

The major impact to revenues for 2004 was the small amount of capital funds utilized during the year. The decrease was \$72,835 less in 2004, but SLHC did not receive the release of 2004 Capital Funds to properly contract and expend those funds during the physical year.

Statement of Expenses

Activity	2004	2003	Change
Administrator	\$ 155,588	\$ 143,265	\$ 12,323
Tenant Services	310	349	(39)
Utilities	69,093	66,086	3,007
Maintenance	145,346	133,323	12,023
Housing Assistance Payment	496,028	488,204	7,824
Depreciation	178,306	176,289	2,017
Total Expenses	\$1,044,671	1,007,516	\$ 37,155

The total increase in operating expense from 2003 to 2004 was \$37,155, which is only a 3.6% increase. A majority of the difference were increases in administrative and maintenance salaries and housing assistance payments.

The combination of a reduction in revenues by \$66,747 and an increase in operating expenses by \$37,155 resulted in a net operating loss of \$103,902 from 2003 vs. 2004.

Statement of Capital Assets

Source	2004	2003	Change
Land	\$ 827,423	\$ 819,948	\$ 7,475
Buildings	3,291,939	3,191,259	100,680
Equipment - Admin	116,014	110,485	5,529
Equipment - Dwelling	50,490	49,952	538
Accumulated Depreciation	(2,815,692)	(2,640,790)	(174,902)
Construction in progress	0	100,680	(100,680)
Total	\$1,470,174	\$1,631,534	\$(161,360)

Land with site improvements from Capital fund activities has increased slightly. The same situation is true for building and modernization activities. Accumulated depreciation has increased by \$174,902 and with no CFP funds utilized in 2004 SLHC's net property and equipment value decreased by \$161,360.

Economic Factors

The Housing Commission's primarily dependent upon HUD for the funding of operations; therefore, the Housing Commission is affected more by Federal budget than by local economic conditions. The capital budgets for 2005 fiscal year have already been submitted to HUD for approval and no major changes are expected.

The Capital fund programs are multiple year budgets and have remained relatively stable. Capital Funds are used for the modernization of public housing properties including administrative fees involved in the modernization.

Significant economic factors affecting the Commission are as follows:

- Federal funding provided by Congress to the Department of Housing and Urban Development.
- Local labor supply and demand, which can affect salary and wage rates
- Local inflationary, recessionary and employment trends, which can affect resident incomes and therefore the amount of rental
- Income Inflationary pressure on utility rates, supplies and other costs

BASIC FINANCIAL STATEMENTS

ST. LOUIS HOUSING COMMISSION
COMPARATIVE STATEMENTS OF NET ASSETS
June 30, 2004 and 2003

	<u>June 30, 2004</u>	<u>June 30, 2003</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 454,754	\$ 451,144
Tenant accounts receivable, net	6,153	3,293
Accounts receivable - HUD Other Projects	8,298	6,178
Accrued interest	10	17
Interprogram receivable	58,540	18,742
Prepaid expenses	11,058	9,246
Total current assets	<u>538,813</u>	<u>488,620</u>
Noncurrent assets:		
Property and equipment, net	<u>1,470,174</u>	<u>1,631,534</u>
Total assets	<u>2,008,987</u>	<u>2,120,154</u>
LIABILITIES		
Accounts payable	13,004	17,160
Interprogram payable	58,540	18,742
Accrued liabilities	45,005	38,168
Deferred revenue	1,438	2,284
Tenant security deposits	12,501	13,474
Total liabilities	<u>130,488</u>	<u>89,828</u>
NET ASSETS		
Invested in capital assets	1,470,174	1,631,534
Unrestricted	408,325	398,792
Total net assets	<u>\$ 1,878,499</u>	<u>\$ 2,030,326</u>

The accompanying notes are an integral part of these financial statements.

ST. LOUIS HOUSING COMMISSION
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
For the Years Ended June 30, 2004 and 2003

	Year Ended June 30, 2004	Year Ended June 30, 2003
OPERATING REVENUE		
Net tenant rental revenue	\$ 145,816	\$ 151,982
Tenant revenue - other	1,435	2,352
Total operating revenue	<u>147,251</u>	<u>154,334</u>
OPERATING EXPENSES		
Administrative	155,588	143,265
Tenant services	310	349
Utilities	69,093	66,086
Ordinary maintenance and operation	126,267	113,233
General expenses	16,264	17,519
Extraordinary maintenance	2,815	2,571
Depreciation	178,306	176,289
Total operating expenses	<u>548,643</u>	<u>519,312</u>
Operating income (loss)	<u>(401,392)</u>	<u>(364,978)</u>
NONOPERATING REVENUE (EXPENSES)		
HUD operating subsidies	712,874	697,777
HUD capital grants	27,845	100,680
Housing assistance payments	(496,028)	(488,204)
Interest income	2,103	5,743
Other nonoperating revenue	3,097	1,185
Gain (loss) on sale of fixed assets	(326)	(128)
Total nonoperating revenue (expenses)	<u>249,565</u>	<u>317,053</u>
Change in net assets	(151,827)	(47,925)
Total net assets - beginning	2,030,326	2,078,251
Total net assets - ending	<u>\$ 1,878,499</u>	<u>\$ 2,030,326</u>

The accompanying notes are an integral part of these financial statements.

ST. LOUIS HOUSING COMMISSION
COMPARATIVE STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2004 and 2003

	Year Ended June 30, 2004	Year Ended June 30, 2003
CASH FLOW FROM OPERATING ACTIVITIES		
Rental receipts	\$ 142,110	\$ 153,626
Other operating receipts	1,435	3,649
Administration	(152,907)	(158,904)
Tenant services	(310)	(349)
Utilities	(69,093)	(66,086)
Operating and maintenance	(129,520)	(115,804)
Insurance and other general expenses	(18,076)	(17,519)
Net cash provided (used) by operating activities	<u>(226,361)</u>	<u>(201,387)</u>
CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES		
HUD operating grants	726,092	697,777
Housing assistance payments	(496,028)	(488,204)
Change in tenant security deposits	(973)	(1,297)
Other nonoperating revenue (expenses)	3,097	1,185
Net cash provided by noncapital financing activities	<u>232,188</u>	<u>209,461</u>
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital grants	27,845	100,680
Purchases and construction of capital assets	(32,172)	(107,459)
Net cash provided (used) by capital and related financing activities	<u>(4,327)</u>	<u>(6,779)</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Interest and dividends	2,110	5,778
Net cash provided by investing activities	<u>2,110</u>	<u>5,778</u>
Net increase in cash and cash equivalents	3,610	7,073
Cash and cash equivalents, beginning of the year	451,144	444,071
Cash and cash equivalents, end of the year	<u>\$ 454,754</u>	<u>\$ 451,144</u>
CASH FLOW FROM OPERATING ACTIVITIES		
Operating income (loss)	\$ (401,392)	\$ (364,978)
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation expense	178,306	176,289
Decrease (increase) in operating assets		
Tenant accounts receivable	(2,860)	419
Prepaid expenses	(1,812)	(1,103)
Increase (decrease) in operating liabilities		
Accounts payable	(4,594)	(8,345)
Accrued liabilities	6,837	(4,894)
Deferred revenue	(846)	1,225
Net cash provided (used) by operating activities	<u>\$ (226,361)</u>	<u>\$ (201,387)</u>

The accompanying notes are an integral part of these financial statements.

**ST. LOUIS HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003**

NOTE 1. REPORTING ENTITY

The St. Louis Housing Commission herein after referred to as the “Housing Commission” is a component unit of the City of St. Louis, Michigan as defined by the Governmental Accounting Standards Board’s (GASB) Statement No. 14, *The Financial Reporting Entity* and *Statement of Michigan Governmental Accounting and Auditing No. 5*, which define the reporting of primary government and component unit activities. The basic criterion for being considered a component unit is the exercise of financial responsibility over such a unit by a primary government, the appointment of the units governing board by a primary government, the designation of management by a primary government, or the ability to exert significant influence on the budget and operations of the unit by a primary government. As a result of being identified as a component unit, the Commission’s financial records have been included as a discretely presented component unit in the general purpose financial statements of the City of St. Louis.

These financial statements include all activities of the Housing Commission, which include a low income housing program (80 units), a Section 8 Certificates program (107 units) and a Section 8 Vouchers program (47 units). These programs receive subsidies and annual contributions from the Department of Housing and Urban Development (“HUD”).

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Housing Commission conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant policies.

Basis of Presentation

The following activity of the Housing Commission is recorded in separate funds categorized as follows:

Enterprise Funds

These funds account for operation’s: (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriated for capital maintenance, public policy, management control, accountability or other purposes.

**ST. LOUIS HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus/Basis of Accounting

The Housing Commission's funds are accounted for on a cost-of-service or capital maintenance measurement focus using the accrual basis of accounting. The accrual basis provides that revenues are recorded and expenses are recorded when the related liability is incurred. The Housing Commission applies all GASB pronouncements as well as the FASB pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Cash, Cash Equivalents and Investments

For the purpose of the balance sheet and statement of cash flows, demand deposits and short-term investments with a maturity of three months or less when acquired are considered to be cash equivalents. Investments are stated at fair value based on quoted market prices.

Encumbrances

Encumbrances for the recognition of commitments to unperformed contracts are not recorded.

Administrative Expense

Expenses incurred by the Housing Commission for administration of the programs are allocated to the separate programs based on the HUD approved budget.

Interprogram Receivables and Payables

Interprogram receivables and payables consist of unreimbursed administrative and general expenses due to or from the Commission's programs. These balances are reimbursed periodically as cash flows become available.

Compensated Absences

The Housing Commission records a liability for compensated absences for any employee vacation, sick time or other benefits, which meet the requirements for recording of a liability.

**ST. LOUIS HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment and Depreciation

Property and equipment are stated as cost. Major improvements and renewals are capitalized while ordinary maintenance and repairs are expensed. Management annually reviews these assets to determine whether carrying values have been impaired. Depreciation, which includes amortization of assets recorded as capital leases, is computed using the straight-line method over the estimated useful lives of the related assets, which range from 5 to 40 years.

Use of Estimates

The process of preparing financial statements requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Property Tax Calendar

The Housing Commission receives no support from property tax collections. Therefore, no property tax calendar is presented.

NOTE 3. DEPOSITS AND INVESTMENTS

The Housing Commission uses three banks for the deposit of its funds. Michigan Compiled Laws, Section 129.91, authorizes the Housing Commission to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States Banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

At June 30, 2004, the carrying amount of the Commission's deposits were \$454,754. Of this amount \$215,180 was covered by federal depository insurance.

**ST. LOUIS HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003**

NOTE 4. LAND, STRUCTURES, AND EQUIPMENT

The following is a schedule of land, structures, and equipment as of June 30, 2004:

	Balances at 6-30-2003	Additions	Deletions	Balances at 6-30-2004
<u>Low Rent Program</u>				
Land	\$ 40,831	\$ -	\$ -	\$ 40,831
Site Improvements	779,117	7,475	-	786,592
Buildings	1,751,038	-	-	1,751,038
Building Improvements	1,231,226	100,680	-	1,331,906
Nondwelling structures	208,995	-	-	208,995
Dwelling equipment nonexpendable	49,952	3,520	2,982	50,490
Office furniture and equipment	91,538	5,839	310	97,067
Total low rent program	<u>4,152,697</u>	<u>117,514</u>	<u>3,292</u>	<u>4,266,919</u>
<u>Capital Program</u>				
Construction in progress	<u>100,680</u>	<u>-</u>	<u>100,680</u>	<u>0</u>
<u>Voucher Program</u>				
Office furniture and equipment	<u>18,947</u>	<u>-</u>	<u>-</u>	<u>18,947</u>
Total	<u>4,272,324</u>	<u>117,514</u>	<u>103,972</u>	<u>4,285,866</u>
Less: Accumulated Depreciation	<u>2,640,790</u>	<u>178,306</u>	<u>3,404</u>	<u>2,815,692</u>
Net Property and Equipment	<u>\$ 1,631,534</u>	<u>\$ (60,792)</u>	<u>\$ 100,568</u>	<u>\$ 1,470,174</u>

Depreciation expense was \$178,306 for the year ended June 30, 2004 and \$176,289 for the year ended June 30, 2003.

**ST. LOUIS HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003**

NOTE 5. RISK MANAGEMENT

The Commission is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Commission manages risk through the purchase of commercial insurance.

Liability, automotive, and property - The Commission is a member of the Municipal Underwriters of MI, which is an association organized to purchase commercial insurance for protection against loss for Michigan cities, counties, townships and special service governments. The Commission is insured up to the following limits: Liability - \$1,000,000, automotive - \$1,000,000, property - \$5,722,000, subject to deductibles of \$0, \$100, and \$250, respectively. The Commission is not subject to supplemental premium assessments by the association.

NOTE 6. CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS

The Commission's operations are concentrated in the multifamily real estate market. In addition, the Commission operates in a heavily regulated environment. The operations of the Commission are subject to the administrative directives, rules and regulations of federal, state, and local regulatory agencies, including, but not limited to, HUD. Such administrative directives, rules and regulations are subject to change by an act of state or federal legislature or an administrative change by HUD. Such changes may occur with little or inadequate funding to pay for the related costs, including additional administrative burden, to comply with a change.

NOTE 7. PENSION PLAN

Plan Description

The defined benefit plan is operated by the Municipal Employees Retirement System (MERS), which is an agent multiple-employer retirement system. MERS issues a publicly available financial report that includes financial statements and required supplemental information. That report may be obtained by writing to:

Municipal Employees Retirement System of Michigan
447 Canal Road
Lansing, MI 48917

**ST. LOUIS HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003**

NOTE 7. PENSION PLAN (Continued)

The pension plan provides pension benefits, deferred allowances, and death and disability benefits. Benefits vest after 6 years of service. Normal retirement is based on one of the following requirements.

1. Age 60 with 6 or more years of credited service.
2. Age 55 with 25 or more years of credited service.
3. Age 55 with 15 or more years of credited service.
4. Age 50 with 25 or more years of credited service.

Employees who retire after reaching requirement one or two, are entitled to 2% of a member's 5 year final average compensation (FAC) times the number of years of credited service for that member.

The retirement allowance is reduced for employees who retire after reaching requirements three or four by $\frac{1}{2}$ of 1% for each complete month that retirement precedes the age of normal retirement. Pension provisions include allowances whereby an employee may terminate employment with the Housing Commission after accumulating 6 years of service but before reaching age 60 (age 55 or 50 in certain cases). If the employee does not withdraw his or her accumulated contributions, the employee is entitled to all pension benefits upon reaching retirement age as discussed above.

Pension provisions include death and disability benefits. A disabled employee is entitled to full benefits after acquiring 6 or more years of credited service. A surviving spouse is entitled to receive 85% of the employee's straight life allowance. Children are entitled to 50% of the straight life allowance.

Funding Policy

MERS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The Housing Commission has responsibility for making actuarially determined contributions to the system. Participants may make voluntary contributions, however no employee contributions are required.

Annual Pension Costs

For the year ended June 30, 2004, the Housing Commissions' annual pension cost of \$20,377 for the plan was equal to the Housing Commission's required and actual contribution. The pension benefit obligation was determined as part of an actuarial valuation of the plan as of December 31, 2001 using the entry age normal cost method.

**ST. LOUIS HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003**

NOTE 7. PENSION PLAN (Continued)

Significant actuarial assumptions used include (a) an 8.0% investment rate of return and (b) projected salary increases of 4.5% per year. Both (a) and (b) include an inflation component of 3% to 4%. The actuarial value of assets was determined using techniques that smooth the effects of short term volatility over a five year period.

Three year trend information as of December 31, 2003, follows:

	2003	2002	2001
Annual Pension Cost	\$ 20,377	\$ 14,425	\$ 15,712
Percentage of APC Contributed	100%	100%	100%
Net Pension Obligation	0	0	0
Actuarial Accrued Liability	313,891	272,660	234,885
Actuarial Valuation of Assets	135,400	101,906	74,863
Funded Percentage	43%	37%	32%
Unfunded Accrued Liability	178,491	170,754	160,022
Covered Payroll	129,733	124,111	118,513
UAL as a Percentage of Annual Payroll	138%	138%	135%

NOTE 8. IMPLEMENTATION OF NEW ACCOUNTING STANDARDS

As of and for the year ended June 30, 2004, the Housing Commission implemented the following Governmental Accounting Standards Board pronouncements.

Statements

- ◆ No. 34 - *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*
- ◆ No. 37 - *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*
- ◆ No. 38 - *Certain Financial Statement Note Disclosures*

**ST. LOUIS HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003**

NOTE 8. IMPLEMENTATION OF NEW ACCOUNTING STANDARDS (Continued)

The above pronouncements are all related to the new financial reporting requirements for all state and local governments. These pronouncements are scheduled for a phased implementation (based on the size of the government) through fiscal years ending in 2005. The Housing Commission was required to implement the new requirements no later than the current fiscal year ending June 30, 2004.

The more significant of the changes required by the new standards include Management's Discussion and Analysis and the reclassification of contributed capital and retained earnings as net assets.

OTHER SUPPLEMENTARY INFORMATION

ST. LOUIS HOUSING COMMISSION
COMBINING STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2004

	Public Housing Low Rent Program	Public Housing Capital Fund Program	Housing Choice Vouchers Program	Total
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 316,774	\$ -	\$ 137,980	\$ 454,754
Tenant accounts receivable, net	6,153	-	-	6,153
Accounts receivable - HUD Other Projects	-	-	8,298	8,298
Accrued interest	-	-	10	10
Interprogram receivable	-	-	58,540	58,540
Prepaid expenses	11,058	-	-	11,058
Total current assets	333,985	-	204,828	538,813
Noncurrent assets:				
Property and equipment, net	1,467,106	-	3,068	1,470,174
Total assets	1,801,091	-	207,896	2,008,987
LIABILITIES				
Accounts payable	12,656	-	348	13,004
Interprogram payable	58,540	-	-	58,540
Accrued liabilities	37,194	-	7,811	45,005
Deferred revenue	1,438	-	-	1,438
Tenant security deposits	12,501	-	-	12,501
Total liabilities	122,329	-	8,159	130,488
NET ASSETS				
Invested in capital assets	1,467,106	-	3,068	1,470,174
Unrestricted	211,656	-	196,669	408,325
Total net assets	\$ 1,678,762	\$ -	\$ 199,737	\$ 1,878,499

ST. LOUIS HOUSING COMMISSION
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Year Ended June 30, 2004

	Public Housing Low Rent Program	Public Housing Capital Fund Program	Housing Choice Vouchers Program	Total
OPERATING REVENUE				
Net tenant rental revenue	\$ 145,816	\$ -	\$ -	\$ 145,816
Tenant revenue - other	1,435	-	-	1,435
Total operating revenue	<u>147,251</u>	<u>-</u>	<u>-</u>	<u>147,251</u>
OPERATING EXPENSES				
Administrative	84,598	-	70,990	155,588
Tenant services	310	-	-	310
Utilities	69,093	-	-	69,093
Ordinary maintenance and operation	126,267	-	-	126,267
General expenses	16,264	-	-	16,264
Extraordinary maintenance	2,815	-	-	2,815
Depreciation	177,037	-	1,269	178,306
Total operating expenses	<u>476,384</u>	<u>-</u>	<u>72,259</u>	<u>548,643</u>
Operating income (loss)	<u>(329,133)</u>	<u>-</u>	<u>(72,259)</u>	<u>(401,392)</u>
NONOPERATING REVENUE (EXPENSES)				
HUD operating subsidies	136,525	-	576,349	712,874
HUD capital grants	-	27,845	-	27,845
Housing assistance payments	-	-	(496,028)	(496,028)
Interest income	1,640	-	463	2,103
Other nonoperating revenue	2,980	-	117	3,097
Gain (loss) on sale of fixed assets	(326)	-	-	(326)
Total nonoperating revenue (expenses)	<u>140,819</u>	<u>27,845</u>	<u>80,901</u>	<u>249,565</u>
Income (loss) before transfers	<u>(188,314)</u>	<u>27,845</u>	<u>8,642</u>	<u>(151,827)</u>
TRANSFERS	<u>128,525</u>	<u>(128,525)</u>	<u>-</u>	<u>-</u>
Change in net assets	<u>(59,789)</u>	<u>(100,680)</u>	<u>8,642</u>	<u>(151,827)</u>
Total net assets - beginning	<u>1,738,551</u>	<u>100,680</u>	<u>191,095</u>	<u>2,030,326</u>
Total net assets - ending	<u>\$ 1,678,762</u>	<u>\$ -</u>	<u>\$ 199,737</u>	<u>\$ 1,878,499</u>

ST. LOUIS HOUSING COMMISSION
COMBINING STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2004

	Public Housing Low Rent Program	Public Housing Capital Fund Program	Housing Choice Vouchers Program	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Rental receipts	\$ 142,110	\$ -	\$ -	\$ 142,110
Other operating receipts	1,435	-	-	1,435
Administration	(82,614)	-	(70,293)	(152,907)
Tenant services	(310)	-	-	(310)
Utilities	(69,093)	-	-	(69,093)
Operating and maintenance	(129,520)	-	-	(129,520)
Insurance and other general expenses	(18,076)	-	-	(18,076)
Net cash provided (used) by operating activities	<u>(156,068)</u>	<u>-</u>	<u>(70,293)</u>	<u>(226,361)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Operating grants	136,525	15,338	574,229	726,092
Housing assistance payments	-	-	(496,028)	(496,028)
Change in tennant security deposits	(973)	-	-	(973)
Interfund transfers	15,338	(15,338)	-	-
Interfund loans - proceeds and collections	77,282	-	(77,282)	-
Other nonoperating revenue (expenses)	2,980	-	117	3,097
Net cash provided by noncapital financing activities	<u>231,152</u>	<u>-</u>	<u>1,036</u>	<u>232,188</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Capital grants	-	27,845	-	27,845
Purchases and construction of capital assets	<u>(4,327)</u>	<u>(27,845)</u>	<u>-</u>	<u>(32,172)</u>
Net cash provided (used) by capital and related financing activities	<u>(4,327)</u>	<u>-</u>	<u>-</u>	<u>(4,327)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest and dividends	<u>1,640</u>	<u>-</u>	<u>470</u>	<u>2,110</u>
Net cash provided by investing activities	<u>1,640</u>	<u>-</u>	<u>470</u>	<u>2,110</u>
Net increase (decrease) in cash and cash equivalents	72,397	-	(68,787)	3,610
Cash and cash equivalents - beginning of the year	244,377	-	206,767	451,144
Cash and cash equivalents - end of the year	<u>\$ 316,774</u>	<u>\$ -</u>	<u>\$ 137,980</u>	<u>\$ 454,754</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ (329,133)	\$ -	\$ (72,259)	\$ (401,392)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation expense	177,037	-	1,269	178,306
Decrease (increase) in operating assets				
Tenant account receivable	(2,860)	-	-	(2,860)
Prepaid expenses	(1,812)	-	-	(1,812)
Increase (decrease) in operating liabilities				
Accounts payable	(4,628)	-	34	(4,594)
Accrued liabilities	6,174	-	663	6,837
Deferred revenue	(846)	-	-	(846)
Net cash provided (used) by operating activities	<u>\$ (156,068)</u>	<u>\$ -</u>	<u>\$ (70,293)</u>	<u>\$ (226,361)</u>

REPORTS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

**Report on Compliance and on Internal Control Over
Financial Reporting Based on an Audit of Financial
Statements Performed in Accordance with
*Government Auditing Standards***

Members of the Board of Commissioners
St. Louis Housing Commission
Gratiot County, Michigan

We have audited the financial statements of St. Louis Housing Commission as of and for the year ended June 30, 2004, and have issued our report thereon dated August 19, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the *Public and Indian Housing Compliance Supplement for Audits of HUD Programs*.

Compliance

As part of obtaining reasonable assurance about whether St. Louis Housing Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered St. Louis Housing Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported in a separate letter dated August 19, 2004.

This report is intended solely for the information and use of management, the Board of Commissioners, the St. Louis City Council and the Department of Housing and Urban Development and is not intended and should not be used by anyone other than these specified parties.

Burnside & Long, P.C.

Midland, Michigan

August 19, 2004

**Report on Compliance with Requirements Applicable to Each
Major Program and Internal Control over Compliance
in Accordance with OMB Circular A-133**

Members of the Board of Commissioners
St. Louis Housing Commission
Gratiot County, Michigan

Compliance

We have audited the compliance of the St. Louis Housing Commission with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major HUD assisted federal programs for the year ended June 30, 2004. St. Louis Housing Commission's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major HUD-assisted federal programs is the responsibility of St. Louis Housing Commission's management. Our responsibility is to express an opinion on St. Louis Housing Commission's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the provisions of the *Public and Indian Housing Compliance Supplement*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major HUD assisted federal program occurred. An audit includes examining, on a test basis, evidence about St. Louis Housing Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on St. Louis Housing Commission's compliance with those requirements.

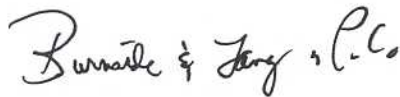
In our opinion, St. Louis Housing Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its major HUD-assisted federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of St. Louis Housing Commission is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered St. Louis Housing Commission's internal control over compliance with requirements that could have a direct and material effect on a major HUD-assisted federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major HUD-assisted federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, Board of Commissioners, the St. Louis City Council and the Department of Housing and Urban Development and is not intended and should not be used by anyone other than these specified parties.



Midland, Michigan
August 19, 2004

ST. LOUIS HOUSING COMMISSION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2004

	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
U.S. Department of Housing and Urban Development		
Public and Indian Housing	14.850	\$ 136,525
Section 8 Housing Choice Vouchers	14.871	576,349
Public Housing Capital Fund	14.872	27,845
Total Federal Awards		<u>\$ 740,719</u>

1. The Schedule of Expenditures of Federal Awards was prepared using the accrual basis of accounting.
2. Management has reported the expenditures in the Schedule of Expenditures of Federal Awards equal to those amounts reported on HUD Form 52681 "Voucher for Payment of Annual Contributions and Operating Statement - housing assistance payments program" submitted as of June 30, 2004.
3. The federal amount calculated on HUD form 52723 "Calculation of Performance Funding System Operating Subsidy" is in agreement with the Schedule of Expenditures of Federal Awards.
4. The Commission is a member of the Municipal Underwriters of Michigan, which is an association organized to purchase commercial insurance for protection against loss for Michigan cities, counties, townships and special service governments. The Commission is insured up to the following limits: Liability - \$1,000,000, automotive - \$1,000,000, property - \$5,722,000, subject to deductibles of \$0, \$100, and \$250, respectively. The Commission is not subject to supplemental premium assessments by the association. The total insurance expense during the current year was \$13,382.

**ST. LOUIS HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2004**

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ - yes X - no
- Reportable condition(s) identified that are not considered to be material weaknesses? _____ - yes X - no
- Noncompliance material to financial statements notes? _____ - yes X - no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ - yes X - no
- Reportable condition(s) identified that are not considered to be material weakness(es)? _____ - yes X - none

Type of auditor's report issued on compliance for major programs: unqualified

Any audit findings disclosed that are required to be reported in accordance with section 51 O(a) of Circular A-133? _____ - yes X - no

Identification of major program(s):

CFDA Number(s)

Name of Federal Program(s) or Cluster

14.871

Section 8 Housing Choice Vouchers

Dollar threshold used to distinguish between type A and type B programs:

\$500,000

Auditee qualified as low-risk auditee? X - yes _____ - no

Section II - Financial Statement Findings

There were no findings or questioned costs for the year ended June 30, 2004.

Section III - Federal Award Findings and Questioned Costs

There were no findings or questioned costs for the year ended June 30, 2004.

**ST. LOUIS HOUSING COMMISSION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
June 30, 2003**

There were no audit findings for the year ended June 30, 2003.

August 19, 2004

Members of the Board
of Commissioners
St. Louis Housing Commission
Gratiot County, Michigan

Dear Board Members:

In planning and performing our audit of the financial statements of the St. Louis Housing Commission, for the year ended June 30, 2004, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control.

However, during our audit, we noted certain matters involving the internal control and other operational matters that are presented for your consideration. This letter does not affect our report dated August 19, 2004 on the financial statements of the St. Louis Housing Commission. We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendations. Our comments are summarized as follows:

MANAGEMENT COMMENTS

Financial Oversight

The general limitations in smaller municipalities like the St. Louis Housing Commission requires that Commission members continue to remain involved in the financial affairs of the Commission through oversight of operation, development of the annual budget, inquiries about variance between budgeted and actual amounts shown in the financial statements, and the independent review of critical functions. Based on inquiries, the Board of Commissioners performs these duties and our comment here is intended to emphasize the importance of its oversight.

SAS 70 Reports


The St. Louis Housing Commission uses a fee accountant and HUD is moving towards requiring each Housing Authority that uses a fee accountant to perform its accounting work to obtain a report issued by a CPA certifying that the fee accountant's internal controls are in place and operating effectively. These reports issued are known as *SAS 70* reports, which come from the AICPA's Statement of Auditing Standards No. 70 - *Reports on the Processing of Transactions by Service Organizations*. Each fee accountant providing services to PHA's will be required to obtain a SAS 70 report from an independent certified public accountant. As contemplated, the PHA would be required to obtain a copy of this report from the fee accountant to ensure that the SAS 70 review was performed.

St. Louis Housing Commission
August 19, 2004
Page 2

Conclusion

These conditions were considered in determining the nature, timing, and extent of the audit tests applied on our audit of the June 30, 2004, financial statements, and this report does not affect our report on those financial statements dated August 19, 2004. We have not considered internal control since the date of our report.

This report is intended for the information of the members of the Board of Commissioners, City Council, management, HUD and the State of Michigan, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Sincerely, 

BURNSIDE & LANG, P.C.